

**BEFORE THE POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001**

**Rate Adjustment Due to Extraordinary
or Exceptional Circumstances**

Docket No. R2013-11

**QUESTIONS PROPOSED BY PITNEY BOWES INC. FOR HEARING ON
NOVEMBER 19, 2013 (WITNESS TAUFIQUE)
(November 8, 2013)**

Pursuant to Commission Rule 3010.65(c) and Presiding Officer's Ruling No. R2013-11/1 (October 17, 2013), Pitney Bowes Inc. (Pitney Bowes) respectfully proposes that the Commission ask the following questions to Postal Service witness Taufique during the public hearing on November 19, 2013.

The questions relate to whether the specific rate adjustments requested are reasonable and equitable.

PROPOSED QUESTIONS FOR WITNESS TAUFIQUE

A. Setting Workshare Discounts to Promote Productive Efficiency

1. Please confirm that the Postal Service offers price discounts to incent mailers and mail service providers to engage in worksharing.
2. Please confirm that the overall productive efficiency of the postal sector can be increased if mailers and mail service providers are induced to perform workshare functions that they can perform more at a lower cost than the Postal Service.

3. In comments submitted on behalf of Pitney Bowes in Docket No. RM2007-1, Dr. John Panzar argued that setting workshare discounts equal to the per unit avoided costs of the Postal Service will minimize the total costs and increase the overall productive efficiency of the postal sector by inducing mailers and mail service providers to choose to perform workshare functions *if and only if* they can perform the work at a lower cost than the Postal Service. Please indicate whether you agree, disagree, or have no opinion about that position.
4. In comments submitted on behalf of Pitney Bowes in Docket No. RM2007-1, Dr. John Panzar also argued that setting workshare discounts at less than the per unit avoided costs of the Postal Service will exclude some equally efficient or more efficient mailers or mail service providers from performing the workshare function. Please indicate whether you agree, disagree, or have no opinion about that position.
5. Please confirm that postage rates that increase productive efficiency are important regardless of whether the rates are the product of an inflation-based rate adjustment or an exigent rate adjustment.

B. The Workshare Market as a Competitive Market for Upstream Postal Services

Please consider the Postal Service's end-to-end service for First-Class Mail Presort Letters as having two distinct segments: an "upstream" segment where there is competition (mail processing), and a "downstream" delivery segment where there is no competition.

1. Please confirm that mail processing operations provided by mailers and mail service providers are part of the upstream segment.
2. Please confirm that the Postal Service's own mail processing operations are also part of the upstream segment.

3. Please confirm that the Postal Service's upstream mail processing operations compete mail processing operations provided by mailers and mail service providers.
4. Please confirm that the Postal Service's mail processing operations for First-Class Mail Presort Letters are part of its provision of services for market dominant products.
5. Please confirm that the Postal Service is exempt from antitrust and unfair competition laws with respect to its provision of market dominant products.
6. Please confirm that the Postal Service is a vertically integrated operator that is active in both the "upstream" competitive segment for postal services and the "downstream" delivery segment where there is no competition.
7. Please confirm that workshare discounts could be viewed as a form of access pricing that determines the terms of access to the "downstream" delivery segment that is operated by the Postal Service and for which there is no competition.
8. Please confirm that the Postal Service could favor its own upstream operations by setting access prices (workshare discounts) in a manner that excludes equally or more efficient upstream competitors.

C. Setting Workshare Prices that are Reasonable and Equitable and Nonexclusionary

1. In comments submitted on behalf of Pitney Bowes in Docket No. ACR2011, Dr. John Panzar raised several concerns about setting workshare discounts below avoided costs. Please indicate whether you agree, disagree, or have no opinion with regard the following statements:

- a. “Worksharing discounts below avoided costs exclude efficient competitors in the upstream mail processing market from access to the monopoly delivery network of the Postal Service.” (p.1)
 - b. “Deviating from [efficient component pricing] reduces productive efficiency and raises serious competition policy concerns. Reducing discounts below Postal Service avoided costs for any reason is a form of exclusionary pricing.” (p. 5)
 - c. “In the vast majority of liberalized network industries, the regulatory regime has in place safeguards to prevent this type of exclusionary price squeeze.” (p.1)
2. Please confirm that the First-Class Mail 5-Digit Automation Letter discount is based upon an 89 percent passthrough of the corresponding cost avoidance (2.5-cent discount divided by 2.8-cent cost avoidance).
3. Please confirm that that workshare discounts that are based upon 100 percent passthroughs of the underlying cost avoidances are reasonable and equitable.

D. Setting Workshare Prices that are in Compliance with Objectives and Factors of the Modern Rate System

Please refer to pages 26-33 of your statement where you discuss “[i]n compliance with Rules 3010.14(b)(7) through (8), . . . how [the] planned prices “help achieve” the objectives of section 3622(b) and “properly take into account” the factors of section 3622(c)[.]”

1. Please confirm that it would be possible to design a set of rates that generates approximately a 4.3 percent average rate increase for each product and class and passes through 100 percent of workshare cost avoidances.

- a. Please confirm that such a rate design would be more effective in minimizing the total costs and increasing the overall productive efficiency of the postal sector more than the rate design you proposed.
- b. Please confirm that such a rate design would result in work being performed by the lowest cost provider.
- c. Please confirm that in comparison to the rate design proposed in this case for First-Class Mail Presort Letters, a set of rates that generates approximately a 4.3 percent average rate increase for each product and class and passes through 100 percent of workshare cost avoidances would be more likely to:
 - i. “maximize incentives to reduce costs and increase efficiency;”
 - ii. reflect “the degree of preparation of mail for delivery into the postal system performed by the mailer and its effect upon reducing costs to the Postal Service;” and
 - iii. meet “the need for the Postal Service to increase its efficiency and reduce its costs, including infrastructure costs, to help maintain high quality, affordable postal services”?

E. Setting Workshare Prices Within an Overall Across-the-Board Increase

Please refer to page 3 of your statement where you state, “In contrast to the original Docket No. R2010-4 exigent filing in July 2010, the current exigent proposal reflects an across-the-board increase for all classes of mail, all products within each class of mail (subject to rounding), and, to the extent possible, for each price cell within each product.”

1. Please confirm that your rate design in this case deviates more from an across-the-board increase at the price cell level than it does at the product or class level.
2. Please confirm that from the Postal Service’s perspective deviations from across-the-board increases at the price cell level less problematic to your general approach in this rate adjustment than deviations at the product and class level?
3. Please confirm it is possible to apply an across-the-board approach at the product and class level, while passing through 100 percent of workshare cost avoidances at the price cell level.

F. The Importance of First-Class Mail Presort Letters

1. Please confirm that in the most recent year for which information is available (FY2012, Q4 through FY2013, Q3), 35.9 billion pieces were prepared either as First-Class Mail 5-Digit Automation Letters or as AADC/3-Digit Automation Letters (the benchmark for calculating the 5-Digit Automation letter cost avoidance).
2. Please confirm that First-Class Mail Presort Letters are one of the Postal Service’s most profitable mail categories and that First-Class Mail Presort Letters provide the single largest source of contribution to the institutional costs of the Postal Service.

Respectfully submitted:

/s/

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